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LEXAR MEDIA, INC.

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION

JENS ERIK SORENSEN, as Trustee of
SORENSEN RESEARCH AND
DEVELOPMENT TRUST,

Plaintiff,

v.

LEXAR MEDIA, INC., a Delaware corporation;
and DOES 1 - 100,

Defendants.

Case No. C08-00095 JW RS

DEFENDANT LEXAR MEDIA'S REPLY
IN SUPPORT OF ITS MOTION TO STAY
THIS LITIGATION PENDING THE
OUTCOME OF REEXAMINATION
PROCEEDINGS

Date: May 5, 2008
Time: 9:00 a.m.
Courtroom: 8, 4th Floor
Judge: Hon. James Ware

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1 **I. ISSUE TO BE DECIDED**

2 Whether a stay of the above-captioned proceeding should be granted pending the
3 outcome of the multiple ongoing U.S. Patent and Trademark Office (“PTO”) reexaminations of
4 expired U.S. Patent No. 4,935,184 (“the ’184 patent”), given that plaintiff has not shown undue
5 prejudice, discovery on this case has not yet begun, and a trial date has not been set.

6 **II. INTRODUCTION**

7 Plaintiff Sorensen Trustee has presented no valid reason for denying Lexar’s stay
8 motion. The ’184 patent has expired. There is no prospect of injunctive relief. Sorensen and
9 Lexar do not compete in the market. And multiple courts—four of them—already have stayed
10 litigation on this patent—including in this District. These undisputed facts strongly favor a stay.

11 Moreover, Sorensen has failed to show that any of the *Guthy-Renker* factors favor
12 proceeding with this litigation. Sorensen cannot and does not dispute that a stay would simplify
13 the issues in question and the trial of the case. Nor does Sorensen dispute that discovery has not
14 yet begun and that no trial date has been set.

15 The only factor that Sorensen addresses is prejudice, and there the Trustee makes
16 no showing whatsoever. Because Sorensen cannot secure an injunction, the only relief the
17 Trustee can claim is money damages. Yet, Sorensen makes no showing that Lexar is at risk of
18 insolvency or financial hardship. Nor does Sorensen explain why the interest rate statutes do not
19 provide adequate protection for any delay that may result from the reexamination proceedings.

20 Sorensen Trustee’s assertion that he will be prejudiced by the loss of relevant
21 evidence during the stay is groundless. The argument is based on the premise that Sorensen can
22 and will conduct discovery from Lexar’s suppliers. Yet, at the same time that Sorensen makes
23 this argument, the Trustee also argues in a pending Motion for Application of 35 U.S.C. § 295
24 Presumption of Infringement (“Motion for § 295 Presumption”) that he cannot obtain discovery
25 regarding the accused process. The argument also ignores the fact that Lexar has agreed to
26 provide the names of its suppliers (so the Trustee can conduct his own investigation) under
27 appropriate confidentiality.

To deny a stay would unnecessarily require investment, by both parties, of substantial resources in a case that otherwise might be easily and efficiently resolved via the reexamination process. As the purpose behind a stay pending the outcome of reexamination proceedings is to avoid this very outcome, a stay should be granted.

III. PLAINTIFF HAS FAILED TO SHOW UNDUE PREJUDICE

Sorensen cannot show that a stay is unwarranted under the *Guthy-Renker* factors. Two of the factors—whether a stay will simplify the issues in question and the trial of the case, and whether discovery is completed and a trial date is set—are not even addressed by Sorensen. This is not surprising, as both factors strongly favor a stay. The third factor—whether a stay would unduly prejudice or present a clear tactical disadvantage to the nonmoving party—weighs in favor of a stay.

A. Sorensen Will Not Suffer Any Undue Prejudice From Loss Of Evidence

Sorensen's assertion that he will suffer undue prejudice from loss of evidence is unfounded. First, Lexar has complied and will comply with its obligations under the Federal Rules regarding the preservation of documents during the stay. Lexar already has taken steps to preserve documents. (Ashmore Decl.¹ ¶ 5.) There is no reason to believe that these steps will be insufficient.²

Second, to the extent that Sorensen is concerned about discovering information from Lexar's suppliers, Sorensen is free to contact them directly. Lexar is willing to provide Sorensen with the identities of its suppliers. All Lexar asks in return is that Sorensen agree in a written stipulation that it will protect that information under terms similar to a protective order

¹ All references to Ashmore Decl. are to the Declaration of David Ashmore in Support of Defendant's Reply in Support of Its Motion to Stay This Litigation Pending the Outcome of Reexamination Proceedings.

² Sorensen points to *Telemac Corp. v. Teledigital, Inc.*, 450 F. Supp. 2d 1107 (N.D. Cal. 2006), to support his point, but the facts of the case undermine his position. In *Telemac*, unlike the present case, the party requesting a stay had already failed to preserve documents. *Id.* at 1111. The court made the point that "the likely length of reexamination is not, in itself, evidence of undue prejudice" and only found a clear tactical disadvantage for the plaintiff after concluding that, among other things, defendants had failed to preserve records. *Id.* Here, of course, no such allegations have been made and Lexar has no intention of destroying preserved documents during the stay.

1 that may be entered into during litigation. The Trustee can then take whatever steps he deems
 2 necessary with respect to Lexar's suppliers. Sorensen could have had this information prior to
 3 filing suit, but refused to agree to those reasonable terms. (Ashmore Decl. ¶¶ 2-4.) The Trustee
 4 should not be heard to argue prejudice from lack of information about Lexar's suppliers when he
 5 was responsible for this lack of knowledge in the first place.

6 Additionally, Sorensen's assertion that a stay will harm his ability to collect
 7 evidence from Lexar's suppliers is contradicted by his own words. In his Motion for § 295
 8 Presumption, the Trustee bases his claim for a presumption of infringement almost entirely on his
 9 purported inability in this case to obtain discovery from Lexar's suppliers and a claim that any
 10 information obtained from them is inherently untrustworthy. If Sorensen truly believes this to be
 11 so, he cannot then turn around and argue against a stay on the basis that it would lead to a delay in
 12 obtaining discovery from the manufacturers, since a delay would not affect his ability to obtain
 13 discovery.

14 Finally, Sorensen's purported concern about possible loss of evidence is not
 15 reflected in his pre-suit conduct. As he admits, Sorensen first contacted Lexar on April 16, 2005.
 16 He did not file suit, however, until almost three years later, on January 7, 2008. Other courts have
 17 found that delay by the patent holder in initiating litigation weighed in favor of a stay. In *Ingro v.*
 18 *Tyco Indus. Inc.*, 227 U.S.P.Q. 69 (N.D. Ill. 1985), the court granted a motion to stay litigation
 19 pending the completion of a reexamination proceeding, based in part on the plaintiff's own delay
 20 in initiating litigation. *Id.* at 71. *See also Hewlett-Packard Co. v. Acuson Corp.*, No. C-93-0808,
 21 1993 U.S. Dist. LEXIS 6449, at *5 (N.D. Cal. May 5, 1993) (granting motion for stay and noting
 22 that plaintiff's delay weighed heavily in favor of motion). If Sorensen were truly concerned
 23 about the risk of evidence lost to time, he could have filed suit in 2005. Instead, he delayed
 24 almost three years and only now raises the issue of preservation.

25 Sorensen raised the purported loss of evidence as a reason against granting a stay
 26 in three other cases involving the '184 patent. (Supp. Lee Decl.³, Exhs. A, B, and C.)

27 ³ Citations to Supp. Lee Decl. are to the Supplemental Declaration of Joseph H. Lee Supporting
 28 Lexar's Reply in Support of Its Motion to Stay This Litigation Pending the Outcome of
 Reexamination Proceedings.

1 Nevertheless, in each case, the motion for stay was granted. (Lee Decl.⁴, Exhs. H, I, and J.) The
 2 circumstances here are no different than in those other cases and Lexar's Motion for Stay should
 3 be granted.

4 **B. Sorensen Will Not Suffer Undue Prejudice From The Duration Of A Stay**

5 Whether a stay in this case lasts 18 to 24 months or five years, Sorensen will not
 6 be unduly prejudiced by its duration. Sorensen spends much of his Opposition attempting to
 7 establish that a stay may last five years. But Sorensen does not show why the additional three
 8 years would create any undue prejudice where none exists after a possible two year delay.
 9 Instead, Sorensen uses the purported additional delay as an excuse to justify his rejection of the
 10 liberal policy in favor of granting motions to stay pending the outcome of reexamination
 11 proceedings. None of Sorensen's arguments in that regard matters because the purported
 12 possibility of a five year delay does not change the rationale for granting stays pending the
 13 outcome of reexamination proceedings.

14 Sorensen first argues that Congress's intent behind the reexamination process is
 15 undermined if the reexamination takes five years. In making this argument, Sorensen misses the
 16 point of reexamination. Reexamination was intended to be "a useful and necessary alternative for
 17 challengers and for patent owners to test the validity of United States patents in an efficient and
 18 relatively inexpensive manner." H.R. Rep. No. 1307 Part I, 96th Cong., 2d Sess. 4, reprinted in
 19 1980 U.S. Code Cong. & Ad. News 6460, 6463. Congress specifically contrasted this with
 20 "costly pre-trial maneuvering." *Id.* The emphasis is on efficiency and cost, not just speed.
 21 Sorensen does not deny that reexamination can be a much more cost-effective and efficient way
 22 of resolving an infringement dispute than costly litigation. It is not surprising that defendants in
 23 patent infringement suits would want to make use of the reexamination process, as it provides an
 24 efficient way to resolve the dispute at a lower cost to both parties compared to patent litigation.
 25 Congress explicitly acknowledged such use. *Id.* (acknowledging that patent challengers, as well
 26 as owners, would find reexamination useful and necessary). A stay pending the outcome of a

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 28 ⁴ Citations to Lee Decl. are to the Declaration of Joseph H. Lee Supporting Lexar's Motion to Stay This Litigation Pending the Outcome of Reexamination Proceedings.

1 reexamination proceeding benefits both parties, as expensive litigation is potentially avoided and
 2 issues regarding patent validity are potentially resolved. An additional three years to wait for the
 3 outcome of a reexamination proceeding does not change the benefits received.

4 Sorensen's arguments based on the Patent Local Rules are similarly flawed. First,
 5 the Patent Local Rules are only intended to govern the course of litigation. As a reexamination is
 6 an extra-judicial activity, the Patent Local Rules do not address its use. Second, as Sorensen
 7 admits, the purpose of the Patent Local Rules is to reduce costs for all parties involved. A
 8 reexamination is intended to do just that. To use the Patent Local Rules to argue against the use
 9 of reexamination as an efficient and less costly means of dispute resolution—thus furthering one of
 10 the purposes of the Patent Local rules—is therefore a perversion of the very purpose behind the
 11 rules.

12 Finally, Sorensen attempts to avoid the body of case law that supports liberal
 13 application of stays pending reexamination by citing to a few cases where a stay has not been
 14 granted. But the very cases on which Sorensen relies actually support Lexar's position. Sorensen
 15 cites to *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556 (E.D. Va. 2007), *NTP, Inc. v.*
 16 *Research in Motion, Ltd.*, 397 F. Supp. 2d 785 (2005), and *Blackboard, Inc. v. Desire2Learn,*
 17 *Inc.*⁵, CA No. 9:06-CV-155 (E.D. Tex. 2008), as cases in which a stay was denied.⁶ But, unlike
 18 in the present case, in every case cited by Sorensen, discovery and the litigation were well
 19 advanced.

20 In *NTP*, not only had a trial been conducted and a verdict reached before Research
 21 in Motion moved for a stay, the case had gone up on appeal, was briefed, argued, and remanded.
 22 *NTP*, 397 F. Supp. 2d at 786-87. The *NTP* court relied heavily on the history of the litigation,
 23 including that a trial had occurred and an appeal had been taken and decided, in determining that
 24 a stay was inappropriate. *Id.* at 788. There is no indication that, without this *Guthy-Renker* factor

25 ⁵ Sorensen does not provide a citation for this case. Lexar, after reviewing the docket for this
 26 case, has identified an order from it denying a motion to stay and will assume that Sorensen
 intended to refer to this order.

27 ⁶ Sorensen also cites to *Telemac*, but not for the proposition that the length of a reexamination is
 28 determinative in evaluating whether a stay is warranted. Nevertheless, in *Telemac*, discovery was
 well advanced when a stay was requested. 450 F. Supp. 2d at 1111.

weighing heavily against a stay, the court still would have decided that a stay was inappropriate.

Even assuming that *NTP* is unclear on how much weight should be given to the potential duration of a reexamination, *MercExchange* is clear—virtually no weight at all. In *MercExchange*, eBay moved for a stay based on reexamination of two patents, the '265 patent and the '051 patent. *MercExchange*, 500 F. Supp. 2d at 562. Both patents were at the same stage of the reexamination process. *Id.* at 562-63. The only difference between the two was that a trial was held and a verdict reached on the '265 patent, while a trial had not been held on the '051 patent. *Id.* at 563. Based solely on that difference, the *MercExchange* court denied a stay as to proceedings involving the '265 patent, but granted a stay as to proceedings involving the '051 patent. *Id.*

Finally, Sorensen cites to *Blackboard* as another case where, despite a reexamination in progress, a motion to stay was denied and the case proceeded to a verdict. In that case, the court orally denied a motion to stay on December 8, 2006, and denied via written order a motion to reconsider its decision on the motion to stay on March 10, 2007. *Blackboard, Inc. v. Desire2Learn, Inc.*, CA No. 9:06-CV-155, Docket No. 62 (E.D. Tex. Mar. 10, 2008) (Supp. Decl. Lee, Exh. D.). In denying the motion for reconsideration, the court emphasized that substantial discovery had been conducted in the case and a *Markman* hearing set, thus increasing the weight of the factors against a stay that was first discussed at the hearing on the earlier motion for stay. *Id.* Thus, as with the other cases cited by Sorensen, the *Blackboard* court based its decision on the advanced procedural posture of the case.

As Sorensen has failed to show any reason why a five year stay is any more prejudicial than an 18 to 24 month stay, and as the bases for his argument actually support a stay regardless of duration, Lexar respectfully asserts that, even if the stay lasts five years, Sorensen will not suffer undue prejudice as a result.

C. Sorensen Can Be Fully Compensated For Any Stay

There is no dispute that the '184 patent has expired. Sorensen can therefore only seek monetary relief in this case. As such, even if the claims of the '184 are not invalidated by the reexaminations and Sorensen ultimately prevails in this suit, any delay due to a stay can be

1 fully accounted for by the statutes on interest. Furthermore, Sorensen has not and cannot point to
 2 anything which might raise a concern that Lexar would be unable to satisfy any judgment in favor
 3 of Sorensen. Accordingly, Sorensen will not be unduly prejudiced by a stay in obtaining relief,
 4 even if the reexaminations of the '184 patent last five years, instead of less than two.

5 **IV. PLAINTIFF'S ANALYSIS OF THE PENDENCY OF REEXAMINATION** 6 **PROCEEDINGS IS FLAWED**

7 While the length of a reexamination proceeding is irrelevant to whether a stay
 8 should be granted (given the absence of prejudice from delay under the circumstances here), even
 9 if it were relevant, Sorensen's arguments based on it are plainly flawed because of his suspect
 10 analysis. At a minimum, Sorensen fails to consider both the special circumstances inherent in a
 11 reexamination of an expired patent that would tend to shorten the duration of reexamination
 12 compared to a typical reexamination and the recent changes to the reexamination process at the
 13 PTO. The credibility of Sorensen's argument also is suspect. The data on which Sorensen relies
 14 was publicly available long before the stay motions in the other cases involving the '184 patent
 15 were filed, yet only now, for the first time, does Sorensen make the argument.

16 There is every reason to believe that the reexamination proceedings of the '184
 17 patent will be much shorter than a typical reexamination. Unlike the typical reexamination,
 18 Sorensen will be prohibited from amending the claims of the '184 patent. 37 C.F.R. § 1.530
 19 (Sept. 8, 2000); *Manual of Patent Examining Procedure* (Eight Edition, rev. 6, Sept. 2007) §
 20 2250 (III) (section last revised Aug. 2006) (Lee Decl., Exh. K.). As a result, the additional time
 21 that might normally be taken by the examiner to consider whether an amendment might change
 22 any grounds for rejection will not occur during reexamination of the '184 patent. This is likely to
 23 lead to a shorter reexamination than in the typical case.

24 Sorensen's analysis also fails to consider the recent changes that the PTO has
 25 made to the reexamination process in order to ensure that the PTO continues to meet its
 26 obligations under law that any reexamination proceedings be "conducted with special dispatch."
 27 35 U.S.C. § 305. Plaintiff notes that the PTO acknowledged in 2004 that it was having problems
 28 meeting its obligations under the law to complete reexaminations with special dispatch.

(Opposition to Stay at 9-10.) But Sorensen fails to mention that, in order to ensure compliance with the law, the PTO took steps shortly thereafter to improve the processing of reexaminations. Press Release, United States Patent and Trademark Office, USPTO Improves Process for Reviewing Patents (July 29, 2005), <http://www.uspto.gov/web/offices/com/speeches/05-38.htm> (Supp. Lee Decl., Exh. E.). The PTO has assigned dedicated examiners specifically for reexaminations and has resolved to complete all future reexamination proceedings within two years. *Id.* The success of this increased focus on reexaminations is reflected in the number of reexamination certificates issued. The number of reexamination certificates issued in 2003 was 193, 138 in 2004, 223 in 2005, 329 in 2006, and 367 in 2007. (Declaration of Melody A. Kramer in Support of Plaintiff's Opposition to Motion for Stay Pending Reexamination, Ex. A, p. 8.) The number of reexamination certificates jumped significantly beginning in 2005, and the number has increased substantially every year since. Furthermore, this trend of increasing numbers of reexamination certificates continues in 2008. Based on the 130 reexamination certificates issued in the first sixteen weeks of 2008, the total number of reexamination certificates for 2008 projects to be 422. (Lee Supp. Decl. at ¶ 2.) This continual increase lends further weight to the PTO's promise that all reexaminations will be completed within two years.

VI. CONCLUSION

Because all the *Guthy-Renker* factors favor a stay and because Sorensen has made no showing of undue prejudice, Lexar respectfully requests that the Court order this case stayed pending completion of the PTO's ongoing reexaminations of the '184 patent.

Dated: April 21, 2008

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